



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

GENERAL BUSINESS ACTIVITY

General business activity is maintaining an unusually high level due primarily to defense orders. There have only been 23 times in the last 162 years when the monthly index of business activity as computed by the Cleveland Trust Company has been higher than it is at the present time. In our opinion, it will remain high through at least the first quarter of 1952 with relatively high retail sales during this period. Commodity prices are not expected to show radical changes from their present level during the next six months.

The stock market during the past month has shown some sizable drops, but nothing serious in view of the rapid and heavy advances of the past two years. Whether these drops are merely technical corrections or whether they might be a beginning of a change in trend is still too early to say. This fact should be kept uppermost, however, that general business at its present phenomenal level is vulnerable and is far more likely to turn down within the next year than to turn up. If the present pace can be maintained year after year, it will be the first time in the history of the United States that this has been true. While we contemplate little change during the next few months, we certainly believe that caution is advisable in making any plans for the longer period.

REAL ESTATE ACTIVITY

Real estate activity is 31% above our long-term normal. This is lower than it has been at any other time in 1951 or 1950, but it is considerably better than it was in the spring of 1949 and the fall of 1948. Many persons familiar only with ascending trends are quite disappointed with present levels of real estate activity, but of the last 100 years, only 16 have seen real estate activity at this season of the year higher than it is now, while 84 have seen it lower. If you can't make a profit on real estate operations at the present level, it is certainly time to investigate your methods of doing business and to attempt to achieve greater efficiency. You cannot reasonably expect many periods in a business lifetime where real estate activity will average higher than it averages at present.

RESIDENTIAL RENTS

Residential rents, in spite of the fact that some areas are being recontrolled, are continuing their inevitable climb upward. The chart on page 537 will show how consistent this upward movement has been since 1946.

Only in the last few months, however, have they climbed above the average of the 18 years 1921-1938, a period which included nine good years and nine bad years for real estate. The cost of building residential rental buildings is now almost $2\frac{1}{2}$ times the average cost in this 18-year base period and, everything else being equal, we would expect in a free market to see rental values of existing buildings at a far higher level than they have attained thus far. Wages are more than double what they were during the average of this period.

Not all rents, however, will show this upward trend. Many of the high-cost units built during the past few years have enjoyed a scarcity market largely because frozen rentals in the lower brackets have had the effect of increasing the average number of square feet of space used per family. This has increased the housing shortage and is largely responsible for the scarcity which has continued year after year. Eventually, higher rentals in the lower bracket dwelling units will shrink space requirements and make units in the moderate price brackets more readily available. When this happens many 608 rental projects are apt to get into trouble.

CONSTRUCTION COSTS

Our six-room frame house now costs \$16,026 to build without the ground, a new all-time high. This is 278% of the cost of building this building in the average of the 1921-1938 period. It is practically double the 1945 cost.



REAL ESTATE MORTGAGE ACTIVITY

Real estate mortgage activity has been falling since August 1950. It is now running about 13% below the level of a year ago. Most sections of the United States are experiencing this drop, with the possible exception of the Chicago, Pittsburgh, South Carolina and Cincinnati regions. Loans made by individuals and by savings and loan associations have suffered the smallest declines in volume, and those by both commercial and savings banks have experienced the greatest drops.

RESIDENTIAL CONSTRUCTION

Residential construction on a seasonally adjusted basis as shown on the chart on page 537 has been declining each month since February. The rapid rise which started in August 1949 culminated in September 1950. The unpegging of the price of government bonds at that time, with the resulting increase in interest rates without a corresponding increase in the rates on FHA and VA loans, dried up a great deal of mortgage money. The tightening of credit resulting from the application of Regulation X on new construction stopped the making of many basically unsound loans, but in itself was not responsible for the greater part of the shrinkage in construction volume. Regulation X has now been weakened by Congress to the extent that it will not be a great retardant to further inflation in the financing of new construction, but the shortages of copper and steel during the next few months will continue to shrink building volume at least through the first and second quarters of 1952.

BUILDING MATERIALS

Since some building materials will probably prove to be highly critical items during the next six months, we are outlining below the situation in regard to some materials which are used in large quantity in residential building:

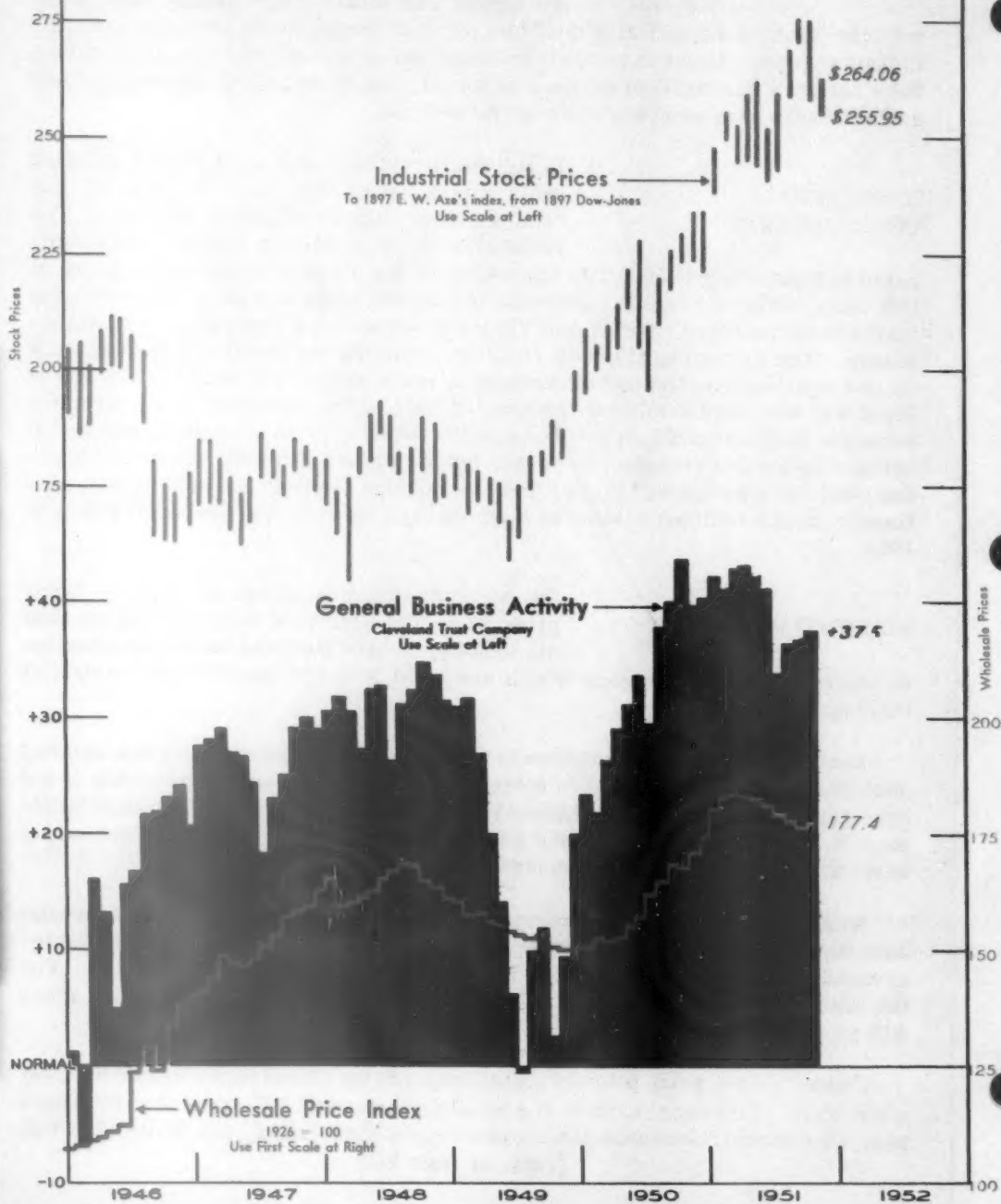
Lumber - The lumber situation is no longer critical insofar as home building goes and the expected increased demand for crating and packing materials is not expected to take up the slack caused by the reduced volume of residential building. It is believed that there will be very little pressure on the current supply in most communities and that prices may show some weakening.

Steel - Due to the defense program, the demand for steel will exceed the available supply during the first quarter of 1952 but probably in May or June the increased capacity of American steel mills will catch up and overtake demand. For the latter part of 1952, steel should be available for the amount of building which will go forward.

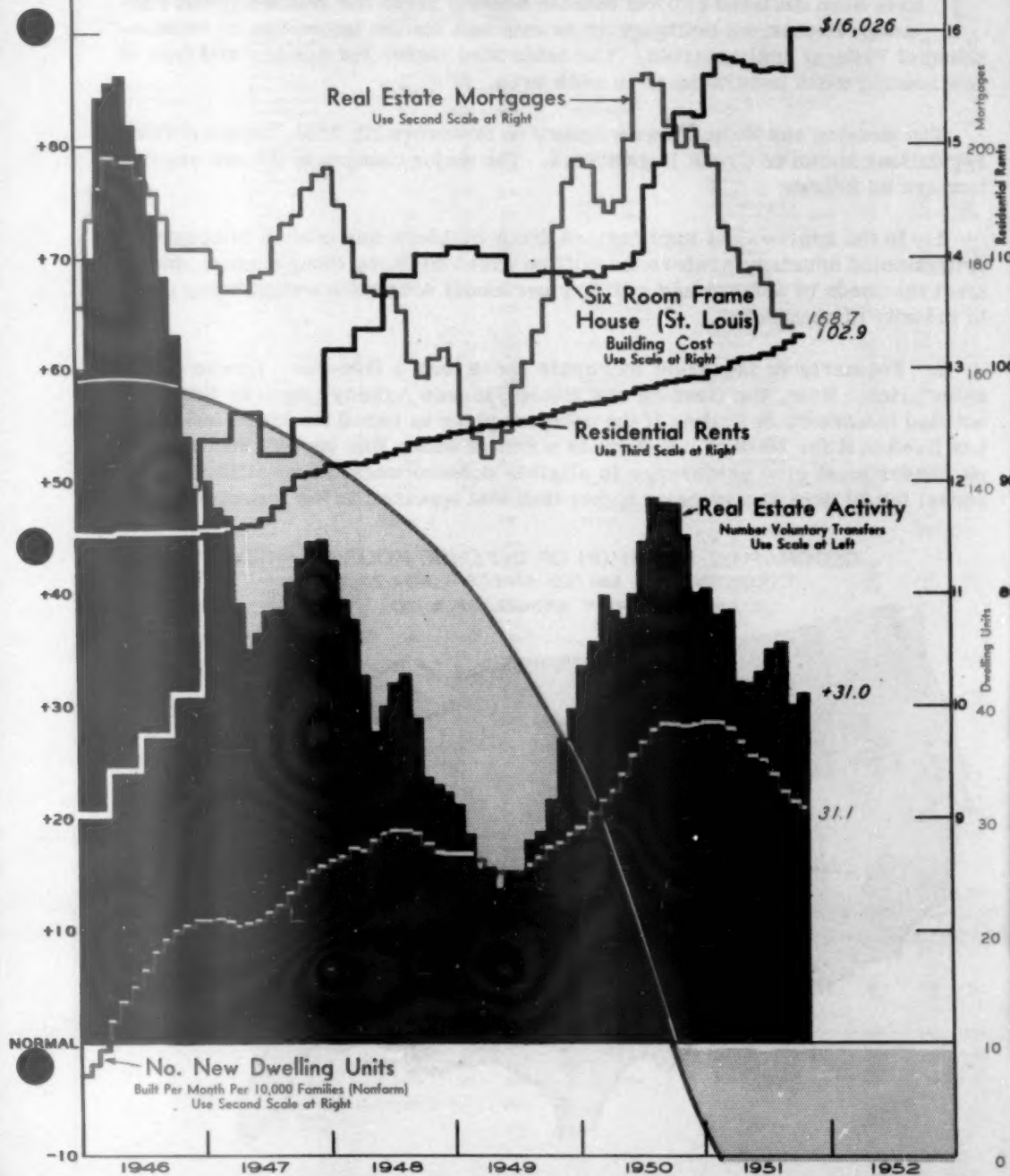
Copper - Last year, primary copper output in the United States totaled 940,000 short tons. This year, in spite of a price approximately 15% above the 1950 average, all efforts to increase the copper supply have failed, and while 1951 will

(cont. on page 540)

GENERAL BUSINESS ACTIVITY



REAL ESTATE ACTIVITY



CRITICAL DEFENSE HOUSING AREAS

THE map below and the table on the page opposite show the areas which have been declared critical defense housing areas for relaxed credit controls, liberalized mortgage insurance and for the imposition or reimposition of Federal rent controls. The table also shows the number and type of new housing units programmed in each area.

The Housing and Home Finance Agency on November 20, 1951, issued revised regulations known as Credit Regulation 3. The major changes in the new regulation are as follows:

1. In the approval of applications from builders and others to construct programmed housing, preference will be given to those thought most able to meet the needs of defense and military personnel with little weight being given to priority of application.

2. Formerly in the event of resale there was a five-year freeze on the sales price. Now, the Housing and Home Finance Agency requires that it be notified in advance in writing if the occupant plans to resell the house before he has lived in it for 90 days. If there is a resale within this period, the original purchaser must give preference to eligible defense workers or military personnel for 60 days at a price no higher than that specified in the approved appli-

GEOGRAPHIC LOCATION OF DEFENSE HOUSING AREAS
(CONTINENTAL UNITED STATES - NOV. 28, 1951)
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Units Programmed as of November 28, 1951

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cation. After 90 days of occupancy, the purchaser is under no restrictions and may sell the house to anyone for any price.

3. Owner-occupants or tenants whose homes were demolished to make way for defense or military construction now have the same status in regard to programmed housing as defense workers or military personnel. The new regulation establishes ceiling prices on the basis of current costs for labor, material and equipment, plus nine-tenths of the highest mark-up for profit which the seller had in effect for a similar job during the base period July 1, 1949-June 24, 1950.

The new order applies to all transactions in which the seller furnishes labor, service, or any combination of labor, materials, equipment and service and building construction, highway construction, heavy construction and a broad range of miscellaneous construction. It does not apply to the operative or merchant-type of home builder, but only to those who build to a customer's order or who build for another building company. If any of these provisions are of interest, we would suggest that a complete copy of Credit Regulation 3 be secured.

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exceed 1950 in the amount of copper ore taken out of the ground, the actual amount of copper mined will not exceed and will probably be less than the amount in 1950. Some of the ores now being worked have lower copper content and, while every effort has been made to expand copper output through loans, accelerated tax write-offs and purchase prices, setting a minimum price at which the government will buy the output of newly opened mines, copper production will increase very slowly, probably not reaching a peak for another three or four years. According to government officials, the copper situation presents the worst long-range problem, and manufacturers have been advised to substitute as much scarce aluminum as possible for scarcer copper. Builders will do well to find all possible substitutes for copper, as there is no chance that any large amount of copper will be available for building in the near future.